

MULTIMEDIA



UNIVERSITY

STUDENT ID NO

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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2021/2022

BFE2074 – FINANCIAL ECONOMICS

(All sections / Groups)

17 AUGUST 2022

9.00 a.m – 11.00 a.m

(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of **TWO (2)** printed pages with **FOUR (4)** structured questions.
2. Answer **ALL** questions. All questions carry equal marks and the distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

ANSWER ALL QUESTIONS (100 MARKS)**Question 1**

Table 1 below shows the real expenditures for a nation.

Types of Expenditure	Amount (RM)
Real consumption expenditure	6,000
Real investment expenditure	4500
Real government expenditure	3000
Real expenditures on imports	750
Real expenditures on exports	400

- (a) Refer to Table 1. Calculate the nation's levels of real income and absorption.
(4 marks)
- (b) Refer to Table 1. Calculate the nation's current account balance and identify the type of balance of payments.
(3 marks)
- (c) Based on Expenditure-switching Instrument, determine two ways for a nation to improve its current account balance in part (b).
(6 marks)
- (d) The time horizon is important when considering the correction of trade balance based on Elasticities Approach. Analyse the effect towards the current account balance in the short-run and long-run.
(6 marks)
- (e) If a nation has a flexible exchange rate and experiences an economic expansion, the value of the nation's currency will not necessarily appreciating. Based on absorption approach, examine this statement.
(6 marks)
- (Total: 25 marks)**

Question 2

- (a) Identify the measures of a nation's money stock (M).
(4 marks)
- (b) Determine the relationship between the money stock and the monetary base.
(3 marks)

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- (c) The portfolio approach proposed that households desire to distribute their wealth over three types of instruments. Examine the relationship between the three types of instruments.
(8 marks)
- (d) Using the wealth identity, evaluate the impact of an increase in the foreign interest rate on the exchange value between the domestic and foreign currencies.
(10 marks)
(Total: 25 marks)

Question 3

- (a) Distinguish the difference between income identity, product identity, and disposable income identity.
(6 marks)
- (b) Illustrate with the help of a diagram on how the equilibrium real income is been determined in an open economy.
(4 marks)
- (c) Determine a nation's balance-of-payments status by using the IS-LM-BP model.
(5 marks)
- (d) Assuming perfect capital mobility and a floating exchange rate, use IS-LM-BP diagram to analyse the effect on (i) interest rate, (ii) domestic income, (iii) trade balances and (iv) exchange rate when the nation's central bank conducts open market purchases.
(10 marks)
(Total: 25 marks)

Question 4

- (a) Differentiate the internal and external balance objectives of national policymakers.
(6 marks)
- (b) Determine how crowding-out effect occurs.
(5 marks)
- (c) According to the expansionary monetary approach to the balance of payments deficit, efforts to affect real income and the balance of payments via non-sterilized interventions ultimately is ineffective policy action when the exchange rate is fixed. With high capital mobility, analyse this statement with the help of a diagram.
(14 marks)
(Total: 25 marks)

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